

California Dairy Campaign

January 30, 2004

Honorable A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street, Room A400
Sacramento, CA 95814

Re: Petition for an adjustment in the Class 4b Pricing Formula

Dear Secretary Kawamura:

The most recent Class 4 pricing formula changes issued by the California Department of Food and Agriculture (CDFA) increased both the manufacturing cost allowance and the marketing cost allowance. The manufacturing cost allowance was adjusted upward based entirely on spike in energy costs while the marketing cost allowance was increased only to ensure California's price is lower than the price in the federal milk marketing orders.

California's system of lower class pricing tends to drag down the prices in the federal milk marketing orders; this has caused regional tensions and resulted in the elimination of the Western Order #134. If California does not discontinue the practice of continually pricing under the federal order price, more federal orders will be eliminated. Everyone in the industry would agree that without the federal milk marketing order system, chaos would prevail. If that happens our state milk marketing order will eventually be eliminated, leaving producers and consumers at the mercy of large multinational companies to dictate producer and retail prices.

In reviewing the most recent CDFA manufacturing cost analysis, it is apparent that the higher prices, which prompted the 2003 hearing and subsequent increases in the make allowances, have since dropped dramatically. For the reasons stated above we believe CDFA should call a hearing immediately to address the inequities in California's pricing system.

The California Dairy Campaign proposes a simple solution, which is the elimination of the Class 4b marketing cost allowance. This change will bring California 4b price into close proximity with the Federal Order Class 3 price and make our milk pricing system more fair and equitable.

Thank you for your consideration of this matter. We look forward to working with you on these and other important issues that affect California dairy producers.

Sincerely,

A handwritten signature in dark ink, appearing to read "Xavier Avila", is written over a light gray circular stamp.

Xavier Avila, President
California Dairy Campaign

Northern California – Plan 44

ARTICLE III

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

(1) The Cheese hundredweight price shall be the price per hundredweight computed by The sum of the following:

- (a) The price per hundredweight computed by the formula using the Cheddar Cheese price, ~~less an f.o.b. California price adjuster of three and twenty one hundredths cents (\$0.0321)~~, less a Cheddar cheese manufacturing cost Allowance of seventeen and five-tenths cents (\$0.175), all multiplied by a yield Factor of ten and two tenths (10.2).
- (b) The price per hundredweight computed by the formula using the butter Price, less a manufacturing cost allowance of thirteen and two-tenths cents (\$0.132), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
- (c) The price per hundredweight computed by the formula using the dry whey Price, less a manufacturing cost allowance of seventeen cents (\$0.17, all Multiplied by a yield factor of 5.8.